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Author(s): Walter Korpi

Source: *Annual Review of Sociology*, Vol. 29 (2003), pp. 589-609

Published by: Annual Reviews

Stable URL: <http://www.jstor.org/stable/30036981>

Accessed: 24/03/2010 15:45

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WELFARE-STATE REGRESS IN WESTERN EUROPE: Politics, Institutions, Globalization, and Europeanization

Walter Korpi

*Swedish Institute for Social Research, Stockholm University, 106 91 Stockholm, Sweden;
email: walter.korpi@sofi.su.se*

Key Words welfare-state retrenchment, globalization, E.U., partisan politics, unemployment

■ **Abstract** The “new-politics” perspective derives welfare state retrenchment from postindustrial changes generating budget deficits and government attempts to benefit cuts, attempts largely resisted by powerful new groups of welfare-state clients. Comparative studies based on social expenditures show little or no role of class-based parties in the retrenchment process. In the power-resources perspective, focusing on the role of distributive conflicts between major interest groups, the post-war European welfare state included full employment in the “Keynesian welfare state,” based on a social contract markedly differing from the one in the United States. The return of mass unemployment in Europe constitutes a major welfare state regress and generates government budget deficits. Analyses based on social citizenship rights indicate major retrenchment in some countries, with political parties and welfare state institutions playing significant roles. The return of mass unemployment and cuts in social rights appear as a reworking of the European postwar social contract.

INTRODUCTION

Once upon a time—not that long ago—there was consensus in Western Europe that the welfare states’ full employment and expanding social-citizenship rights inaugurated after the end of World War II had come to stay. This reshaping of the welfare state had emerged in the context of the sea change in power relations, when for the first time in history left parties had come to be either dominant parties in governments or the major opposition parties. In its 1945 election manifesto the British Labour Party made “jobs for all” and “social insurance against the rainy day” its primary political objectives and outlined “the means needed to realise them” (Craig 1975, pp. 124–25, 130). Labour’s unexpectedly great victory set the tone and impressed a lesson that was widely accepted in Europe. Scholars, politicians, and the public came to see the continued existence of such welfare states as ensured by a supportive electorate. In the 1950s this mood was summed

up by a leading British Labour politician: "Any Government which tampered seriously with the full employment Welfare state would meet with a sharp reversal at the polls" (Crosland 1956, p. 28). In the mid-1970s, however, this stability began to evaporate. Before the end of the century Western scholars had shifted their focus from the study of welfare-state expansion to analyses of its regress, welfare-state retrenchment. In the 1990s the study of retrenchment became a growth industry with an outpouring of articles and books.

In scholarly debates on welfare-state retrenchment, one key issue has concerned the extent of retrenchment. On this question the dominant view has been that in Western Europe no sweeping or radical retrenchment has occurred, a view that has recently been questioned. Other central questions have concerned the causes of retrenchment. Here the debate has been rather intensive. In the theoretical discussions key issues have concerned the relative significance of three factors within this context: economic transnationalization, postindustrialism, and distributive conflict as expressed in partisan politics. Debates on economic transnationalization have included not only globalization but also the role of economic and political integration within Europe. On the significance of globalization for retrenchment, views have differed. The major proponent for postindustrial changes as causes for retrenchment has been Paul Pierson. In a series of pioneering and challenging works, Pierson (1994; 1996; 2001a,b,c) staked the claims for what came to be described as "the new politics of the welfare state." The new-politics strand of thought rejects the hypothesis that globalization is a main cause of retrenchment, arguing instead that here postindustrialism exerted the major pressures. The new-politics perspective also partly counterposes itself in relation to the power-resources approach to welfare-state development. As is well known, the latter approach views welfare states to a significant extent as outcomes of distributive conflicts involving class-related interest groups and political parties, conflicts where the relative power of actors is significant (Esping-Andersen 1985, 1990; Huber & Stephens 2001; Korpi 1983, 1989; Myles 1984).

Although Pierson holds that the power-resources approach is very fruitful in explaining welfare-state expansion, he argues that in crucial respects retrenchment is different from expansion. Basic to the new-politics perspective is the hypothesis that, in the retrenchment phase, the major forces driving welfare-state change no longer come from distributive conflicts among socioeconomic interest groups, but rather emanate from postindustrial changes (Pierson 2001b). Growing service sectors decrease economic growth rates, whereas the graying of populations, changing family patterns, increasing share of women in the public sector labor force, and maturation of government welfare commitments all tend to increase social expenditures. Such postindustrial changes generate intense and persistent pressures on government budgets (Pierson 2001a). The cold star of permanent austerity therefore guides governments of all political shades to attempt cuts in social expenditures.

A central challenge by the new-politics strand of thought to the power-resources approach is that, in the retrenchment phase, class-related political parties that once

drove welfare-state expansion have now largely receded into the background. Thus, although politics still matter, according to the new politics perspective "there are good reasons to believe that the centrality of left party and union confederation strength to welfare state outcomes has declined" (Pierson 1996, p. 151). New-politics supporters view these forces as having been replaced to a large extent by new client groups of benefit recipients generated by welfare states, such as pensioners, health-care consumers, the disabled, and welfare-state employees. Because of the size and concentration of interests in such client groups, they have been able to largely resist government attempts at cutbacks. The resilience of the welfare state is further fortified by the new situation in which governments find themselves. In the expansionary period politicians could claim credit for carrying out generally popular reforms, but in the retrenchment phase they have to overcome the negativity bias when strong interest groups are required to forego rights and benefits seen as entrenched parts of the status quo. Pierson thus advanced the hypothesis that for these reasons welfare-state retrenchment is likely to be a limited phenomenon.

In this paper I focus on Western Europe since the mid-1970s and discuss studies of the extent and causes of welfare-state regress or retrenchment. The latter terms are used interchangeably here to refer to policy changes involving or implying cuts in social rights in ways that are likely to increase inequality among citizens. Because of the large number of studies dealing with welfare-state change, this review has to be highly selective, focusing on works that exemplify the various strands of thought concerning the driving forces and extent of retrenchment.¹

The review begins with a consideration of the definition of the dependent variable in analyses of welfare-state regress and with methodological problems in such analyses. I argue that, although most analyses have focused on social transfers and services, postwar welfare states of Western Europe have typically included full employment as one cornerstone, making unemployment increases an important indicator of welfare-state regress. Furthermore, most comparative studies have been either based on expenditure data and/or focused on one or a few cases. Recent work permitting comparison based on social-citizenship rights, with data for a relatively large number of countries and long time periods, has greatly improved the description of welfare-state regress as well as causal analysis. The next section compares European countries and the United States with respect to the role of full employment in their respective welfare states and their different paths of unemployment development since the end of World War II. The following section describes the extent of retrenchment in social-insurance programs and discusses the role of welfare-state institutions in this context. Thereafter I discuss the potential role of partisan politics during the period of retrenchment for differences

¹As pointed out by several authors, welfare states change in a number of ways, only some of which can be described as regress or retrenchment (Ferrera & Rhodes 2000, Pierson 2001a). The numerous studies that do not concentrate on retrenchment are not included here. In Eastern Europe developments in the countries of the former Soviet block are so different that they cannot be treated here.

among countries as well as the role of retrenchment for gender inequality. The penultimate section reviews the effects of globalization and of ongoing processes of political and economic integration in Europe on welfare-state regress, differentiating between various aspects of welfare states. The last section discusses the findings in this review. In dealing with theoretical arguments and causal interpretations, I focus attention on a comparison between the new-politics perspective and the power-resources approach.

DEFINITION AND MEASUREMENT OF WELFARE STATES

In the study of retrenchment the dependent variable, the welfare state, has typically been defined in terms of social transfers and/or social services. Although these two areas, of course, are central, in analyses of retrenchment it is necessary to have a theoretically based definition of the dependent variable. In the power-resources approach scholars view postwar changes in welfare states to a significant extent as reflecting power contests among major interest groups related to the relative role of markets and democratic politics in distributive processes. These conflicts also define and change institutions that set frames for continued distributive conflicts. Such an approach indicates that, although transfers and services are important, here at least one more area must be considered, namely that of unemployment.

In the power-resources perspective unemployment appears as a central variable because for categories of citizens with labor power as their main basic power resource, the efficacy of this resource in distributive conflict and bargaining is to a major extent determined by the demand for labor and by the level of unemployment. In this perspective the maintenance of low levels of unemployment empowers citizens and is an essential preventive part of the welfare state (for example, see Korpi 1983, p. 188). However, the right to employment is very difficult to establish as a claim right. Yet, in almost all countries of Western Europe in the years after the end of World War II, full employment became what can be called a social protoright in the sense that it was widely expected by citizens and that irrespective of partisan composition most European governments acted so as to maintain full employment.

As Blanchflower & Oswald (1994) have shown, the level of unemployment has a clear relevance to wage levels. In local labor markets and industries with high unemployment, wages tend to be lower than where unemployment is low. This empirical fact indicates that the level of unemployment is likely to be both a main bone of contention between employers and employees and a major factor determining outcomes of the positive-sum distributive conflict between them concerning the distribution of firm revenues. The state of the labor market and changes in levels of unemployment must therefore be seen as essential welfare-state indicators and can not be overlooked in analyses of welfare-state retrenchment.

As in earlier analyses of welfare-state expansion, in the study of retrenchment the typical dependent variable has been welfare-state effort, defined as the size of government social expenditures in relation to the gross domestic product. With basic data available in publications by the International Labour Organization (ILO)

and the Organisation for Economic Cooperation and Development (OECD), this indicator has been widely used. Unfortunately, however, the well-known problems associated with the welfare-effort indicator become aggravated in the analysis of retrenchment. Thus, for example, international developments and government policies can raise the level of unemployment, thereby increasing public expenditures for the maintenance of the unemployed while also tending to slow down growth in the gross domestic product. Therefore a reliance on the conventional welfare state-effort indicator may make an unemployment crises appear as an actual increase in welfare-state effort. As argued by Swank (2001, p. 215), with proper control variables some of these problems can be counteracted, yet in this context results based on expenditure changes are likely to remain problematic.

As a complement to studies on welfare-state development based on expenditure data and case studies, within the Social Citizenship Indicator Program (SCIP), alternative measures of welfare-state development are in the process of being created; these measures focus on describing and quantifying the nature of legislated social rights in major social insurance programs.² Preliminary data from this source have been used to analyze retrenchment in social insurance programs in the 1975–1995 period (Korpi & Palme 2000, 2001, 2003). Since social rights reflect welfare-state development from a different angle than the one expressed in expenditure data, these analyses provide a relevant point of comparison with results from earlier studies.

THE REGRESS OF FULL EMPLOYMENT IN EUROPE

As noted above for welfare-state regress, the hypothesis of only limited retrenchment has won rapid and widespread acceptance among Western scholars. This acceptance appears to reflect not so much the weight and depth of the empirical data presented as the symbolic stature of the two cases originally studied by

²This ongoing work is carried out at the Swedish Institute for Social Research, Stockholm University, and is directed by W. Korpi & J. Palme. The data collection covers 18 countries at 14 time points during the 1930–1995 period. The five social-insurance programs included are old-age pensions, sickness cash benefits, unemployment insurance, work-accident insurance, and family benefits. Besides net benefit levels, for each program information on a number of other variables are collected (for details also see Korpi & Palme 2000, 2001, 2002). The scope of the work involved is indicted by a comparison with an OECD report on one variable (benefit rates) at one time point (1999) in one program (unemployment insurance), where the one-page table summarizing the results required no less than 332 pages of text explaining sources and ways of calculation to show how they were derived (OECD 1999). To make data collection of this type possible, the International Sociological Association has established the following ethical guide lines: “Data bases should not be regarded as being in the public domain until the researchers who have assembled them have specified the sources of their data and the methods by which they were constructed. . . . Interim data sets should be available for inspection of their accuracy by other scholars” (ISA Bulletin no. 72, 1997).

Pierson (1994). Choosing the United States under Ronald Reagan and Britain under Margaret Thatcher as his crucial test cases, Pierson asked, if retrenchment could not be found under such militant antiwelfare-state governments, then where else could it be found? In the European context, Pierson's conclusion that the "British welfare state, if battered, remains intact" was especially persuasive (Pierson 1994, p. 161). In retrospect it is, however, clear that owing to the pioneering nature of these studies there are many problems associated with the empirical bases upon which these claims have been based. It can be argued that several of these claims are premature and reflect problems in the definition of welfare states, a reliance on case studies of few countries, and the use of social expenditure data as the prime outcome variable. Here I focus on Western Europe since the mid-1970s and discuss studies of the extent and causes of welfare-state regress or retrenchment. (Korpi & Palme 2000, 2001, 2003).

One central problem with most analyses of welfare-state regress is that they have excluded changes in levels of unemployment and have only indirectly dealt with the return of mass unemployment in Europe since the 1970s. In their impressive study Huber & Stephens (2001) brought high unemployment into the analyses in terms of contexts in which retrenchment is likely to occur; however, they did so without analyzing the demise of full employment as part of welfare-state regress. Castles (2001) also considers unemployment as a contextual variable in the retrenchment process.

The role of full employment in the welfare state differs greatly between Europe and North America. In almost all democracies of Western Europe the first decades after the end of World War II witnessed a remarkable change in societal power relations when, for the first time in the history of capitalism, left parties emerged as either government parties or major opposition parties and union densities doubled in relation to levels obtained between the world wars. This dramatic change forms the background for the expansionary period of European welfare states. The mobilization of labor force during the war had proved that in the real world full employment could be achieved. Keynesian ideas showed that also theoretically full employment was possible and that deep recessions such as those appearing between the two world wars could be avoided.

In Western Europe the emergence of full employment as well as the expansion of social transfers and social services thus emerged at approximately the same time. Crosland's (1956) statement about government and full employment (quoted above) indicates that contemporaries saw this triplet as constituting a unity, the full-employment welfare state, where expanding social insurance and services were combined with unemployment rates below the 3% maximum level set by the British social reformer William Beveridge (1944). In Europe the concept of the Keynesian welfare state became widely used (e.g., Offe 1984). In European countries with an uninterrupted political democracy during the postwar period this type of full-employment welfare state can be seen as an outcome of distributive conflicts and macropolitical bargaining that resulted from the changing relations of power in European societies as noted above. It was a manifestation of what can be called

an implicit social contract between the main interest groups in these countries (Korpi 2002). However, some differences can be found among countries. Ireland and Italy, with the weakest traditions of left government incumbency, retained relatively high levels of unemployment during the 1950s and 1960s. Furthermore, when unemployment levels rose after the first oil shock in 1973, this rise was much more dramatic in the countries of the European Economic Community (EEC) than in the countries of the European Free Trade Area (EFTA), where the rise was delayed for approximately 15 years.

During the period after World War II Western Europe and the United States had very different histories when it came to levels of unemployment. In the United States the postwar social contract did not include full employment in the European sense. From 1955 to 1973 U.S. unemployment levels averaged 4.9% (Figure 1). In the same period six core countries of the European Economic Community—Belgium, Denmark, France, Germany, Netherlands, and the United Kingdom—had less than half of the U.S. unemployment level, 2.1%. But after the oil shocks in 1973 and 1979, the average unemployment level in these countries quadrupled and was 8.2% during 1982–2000, while changes in the United States were modest. In fact, after World War II and until the end of the century, U.S. unemployment rates have shown essentially trendless fluctuation. In stark contrast Western Europe experienced first the arrival of full employment and thereafter the return of mass unemployment.

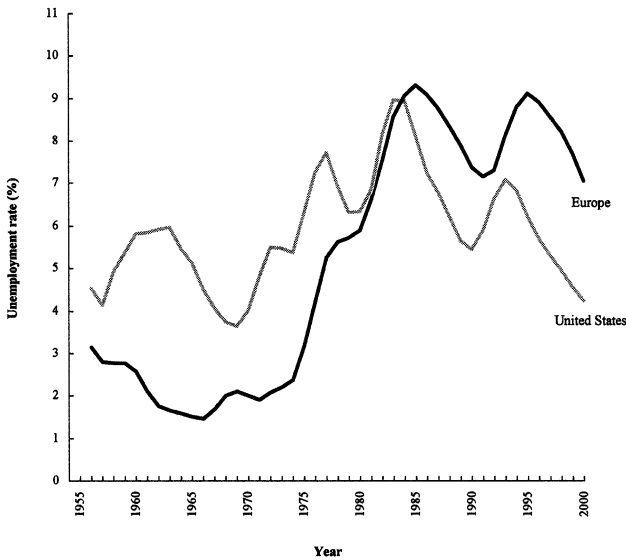


Figure 1 Unemployment rates (3-year moving averages) 1955–2000 in the United States and in six European countries—Belgium, Denmark, France, Germany, the Netherlands, and the United Kingdom.

Clearly a number of factors were of relevance to the return of mass unemployment to Europe.³ However, conflicts of interest between major interest groups are likely to have been of significance there. Long-lasting full employment in Europe came to have consequences unwanted by important interest groups. Thus business interest saw with increasing alarm the rising levels of labor-force involvement in industrial conflict as well as the falling share of profits and increasing share of wages in the domestic product. Yet the fear of voter reactions pressed governments of all political shades to give top priority to full employment in the tradeoff between inflation and employment (OECD 1970). As argued by Rehn (1987), many European governments are likely to have used the window of opportunity created by the oil shocks of 1973 and 1979 to allow levels of unemployment to escalate. In the 1990s U.S. unemployment rates decreased more than the European average.

Within the European perspective, full employment was thus a constitutive part of the welfare state. When judged in relation to the reality prior to 1973, the return of mass unemployment must be seen as a major retrenchment, the eradication of one of the cornerstones of Western European welfare states. However, this radical change has occurred outside the focus of the new-politics approach and has therefore not been conceived as a case of retrenchment.

SOCIAL INSURANCE, EXPENDITURES, AND INSTITUTIONS

Pierson's pioneering work on welfare-state retrenchment has been followed by a number of interesting studies.⁴ Some are comparative and based largely on expenditure data (see Castles 2001, Clayton & Pontusson 1998, Hicks 1999, Huber & Stephens 2001, Swank 2001). However, most of them are examinations of a single or a few countries, often in qualitative terms (see Bonoli & Palier 1998; Green-Pedersen 2001, 2002; Kautto 2000; Leibfried 2001; Levy 1999; Olsen 2002; Palier 2000; Palme 2002; Palme & Wennemo 1998). These studies largely agree on the nature of the pressures toward retrenchment faced by modern welfare states: population aging, changing family patterns, new gender roles, decreasing economic growth rates, technological change, internationalization of the economy, and changing relations between nation states as a result of the end of the Cold War and political-economic integration in Europe. These studies have also largely agreed that to a remarkable extent European welfare states have been resistant to

³For analyses of the arrival, continuation, and demise of full employment in Western countries, see Korpi (2002).

⁴Collective works of significance in this context are volumes by Clasen (2001), Bonoli et al. (2000), Esping-Andersen (1996), Ferrera & Rhodes (2000), Kautto et al. (1999, 2001), Kuhnle (2000), Pierson (2001c), and Scharpf & Schmidt (2000a,b). Reviews of selected literature are found in Green-Pedersen & Haverland (2002), van Kersbergen (2000), and Lindbom (2002).

change. Thus, for example, after a survey van Kersbergen (2000, p. 25) concluded the following: "The general thesis that may be distilled from the literature is that while the context of welfare state policies has changed, this has not lead to a dismantling of existing welfare state regimes or single programmes." Green-Pedersen & Haverland (2002, p. 44) note that in the post-Pierson literature "the expectation of no sweeping retrenchment has largely been confirmed." Additionally, as the title of his edited book indicates, Kuhnle (2000) and his colleagues observed *The Survival of the European Welfare State*. Furthermore, in the newly redemocratized countries of Western Europe, such as Spain, welfare states have actually expanded (Moreno 2000). To account for this resilience several of these authors point to the widespread popular support for the welfare state and to the path dependency created by welfare states.

As noted above, although clearly valuable and relevant, many of the studies made on retrenchment are problematic. Apart from overlooking the demise of European full employment, analyses based on expenditure data face other difficulties in disentangling consequences of factors such as increasing levels of unemployment and changes in benefit levels, whereas more qualitatively oriented studies offer rather weak benchmarks for studying change over time and differences between countries. The SCIP database (discussed above) provides preliminary data quantifying social rights in major social-insurance programs and thereby an alternative empirical basis for the analysis of retrenchment (Korpi & Palme 2000, 2001, 2003). Here changes in the net replacement rates of three programs for benefits received as a result of short-term interruptions of work income—that is, benefits during sickness, work accidents, and unemployment—are of particular interest. These programs are of major importance to government budget deficits. Furthermore in these programs government decisions on cuts will usually have relatively quick effects on net replacement rates, a circumstance that increases the possibility of relating cuts to political decision making. Thus, these short-term programs differ from old-age pensions, where political decisions may have consequences decades later. Net replacement rates in these programs give unidimensional variables for studying change over longer time periods and for a relatively large number of countries.

Analyses based on the above social-rights data indicate that in the long perspective starting back in 1930 the average net benefits for 13 European countries in each of these three programs have had a monotonic increase with an acceleration that began in 1950 and continued until approximately 1975, followed by a decrease until 1995 (Korpi & Palme 2003). This downward deviation from the long-increasing trend is an indication of retrenchment. Yet average decreases cannot be described as an overall dismantling of these social-insurance programs. Unlike the removal of full employment from almost all European welfare states after 1973, in these three social-insurance programs we find great differences among countries. Here Britain—established as the crucial test case in the earlier literature on the extent and causes of retrenchment—is a relevant example. By 1995, following the coming of the Conservative government in 1979, net

replacement rates in these three programs were cut back below the minimum levels established in the 1946 reform. Replacement rates in sickness insurance were actually reduced to approximately the same level as that in 1930, while unemployment and work-accident insurance benefits plunged to approximately half of their 1930 levels.

Path dependency has often been used as an explanation for welfare-state resilience. Myles & Pierson (2001) have drawn attention to a major mechanism explaining such stability in pay-as-you-go pensions systems: the double payment problem. In countries with well-developed pay-as-you-go pension systems the working generation is paying the pensions for retirees and cannot easily accept also contributing to their own future pensions in a funded system. Mature pay-as-you-go pension systems are therefore difficult to change into funded programs. It is important that we can explain differences in the extent of path dependency in terms of specific mechanisms that generate more or less resistance to cuts. Often, however, the concept of path dependency is used to label absence of change rather than to explain resistance to change.

As noted above, in the new-politics perspective it is widely assumed that resistance to welfare-state cuts comes primarily from categories of benefit recipients, such as retirees, the unemployed, the handicapped, and health-care consumers. Although such categories are relevant and retirees in particular constitute a significant part of the electorate in most countries, other benefit recipients, for example the unemployed, have traditionally been very difficult to mobilize. It can be argued that of greater relevance here is the much larger constituency of risk-averse citizens, who benefit from insurance in terms of the reduction of risks they are likely to face during the life course. However, in Western societies risk-averse citizens are internally differentiated by a number of potential and partly cross-cutting lines of cleavage, such as occupation, status, income, education, ethnicity, religion, and region. These cleavages also differentiate citizens in terms of lifetime risk as well as in terms of the resources they control to handle these risks. Given these circumstances, reflecting theory formation within the "new institutionalism," it can be argued that major welfare-state institutions are likely to be of relevance for the formation of values, attitudes, and interests among citizens in ways that are of relevance for patterns of collective action. This is because welfare-state institutions tend to create templates that emphasize some of the lines of cleavage discussed above while downplaying others. The institutional contexts generated by welfare states are therefore likely to affect citizens' coalition formation in terms of the extent of support and resistance that government efforts to cut back social rights are likely to face (Korpi & Palme 1998, Korpi 2001). The institutional organization of risk-averse citizens, rather than the number of benefit recipients, is likely to be of main relevance for the degree of path dependency in welfare-state programs.

To account for differences among countries in terms of welfare-state development, it is fruitful to relate changes in social rights to a welfare-state typology based on the nature of the institutional structures of the main social-insurance

programs in a country (Korpi & Palme 1998, Korpi 2001).⁵ This typology differentiates social-insurance institutions by using three criteria: basis for claiming benefits, principles for setting benefit levels, and forms of governance of insurance programs. On the bases of these criteria, it is possible to identify five different types of institutional structures, which historically have existed in Western welfare state. These institutional structures constitute the targeted, voluntary state-subsidized, basic security, state corporatist, and encompassing models. In present-day Europe the latter three models are the most important ones.

The basic-security model is universalistic and gives benefits to all at a flat rate, which typically is rather low. Because of the low benefit rates inherent in this model, it cannot protect accustomed standards of living of better-off citizens, who therefore are likely to gradually develop private solutions such as occupational insurance and savings. In the long run, in this model social-insurance programs will be a concern primarily for manual workers, whereas private programs assume main relevance for the middle class. This type of institution provides a context where government attempts to cut public programs are unlikely to meet widespread or unified resistance and thus are likely to suffer retrenchment. In contrast, the state-corporatist model as well as the encompassing model offer earnings-related benefits. Within these institutional structures, public programs tend to safeguard accustomed standards of living among the middle class, thereby decreasing the need for private solutions and "crowding out" different types of private insurance. However, the state-corporatist and the encompassing models affect the middle class within very different contexts. In the state-corporatist model there are several separate occupation-related insurance programs, differentiated in terms of conditions, financing, and benefits. Each program is governed by elected representatives of employers and employees, typically from the unions. Within state-corporatist institutions, government attempts at retrenchment are likely to meet resistance from preorganized bodies of risk-averse citizens attempting to safeguard their specific interests. In contrast, in the encompassing model the middle class is included in the same programs as all other citizens. In the expansion phase this broad constituency was mobilized by political parties and formed a major force in favor of welfare-state expansion. When faced with cutbacks, however, such a heterogeneous assembly of citizens is difficult to mobilize from the inside. In this institutional context the degree of resistance is likely to reflect

⁵In contrast to Esping-Andersen's (1990) influential typology of welfare-state regimes, which is based on a broad set of indicators and therefore fruitful for general descriptive purposes, this typology is focused on welfare-state institutions, which can be seen as intervening variables, relating causes to outcomes. This institution-based typology provides a much more precise basis for differentiation of welfare states, for measuring changes over time, as well as for causal analysis. The social-insurance programs used for the typology are old-age pensions and sickness cash benefits, programs that are of major relevance for all socioeconomic categories. In almost all these countries sickness cash benefit programs have the same type of institutional structure as old-age pensions.

the extent to which political parties are willing to mobilize voters against cutbacks.

The widely accepted new-politics hypothesis of only limited retrenchment has been called into question by analyses of cutbacks in terms of indicators of social rights, focusing on sickness, work accident, and unemployment insurance programs (discussed above) and on changes in net replacement levels within 13 European countries (Korpi & Palme 2001, 2003). One indicator was based on cuts measured as declines in benefit levels until 1995 from the peak levels reached during 1975–1990. Important differences were found among countries, some part of which can be understood in terms of the structure of their dominant social-insurance institutions.⁶ The largest cuts had clearly taken place in countries dominated by basic security institutions. Here Britain was clearly in the lead with average net replacement rates that were reduced by almost half. Ireland followed with cutbacks amounting to one third of peak rates. Denmark had cutbacks of the order of one fifth of peak rates, while lower rates were found in the Netherlands. Among the basic security countries Switzerland had no major cutbacks.⁷ Among the state corporatist countries cuts were, on average, lowest. Thus whereas in Austria, France, Germany, and Italy unemployment insurance programs had seen significant cuts, sickness and work-accident programs had largely been spared. An exception here was Belgium, where net benefits decreased markedly in sickness insurance. In the encompassing category, cuts were on the average lower than in countries with basic-security programs, but both Sweden and Finland had made some important cuts, primarily during the early 1990s when their unemployment levels exploded. Norway with its oil economy largely escaped cuts.

With reliable and comparable empirical data reflecting the character of social rights in a large number of countries over a longer period, we get a perspective on the extent of retrenchment in social-insurance programs that is quite different from the ones based on expenditure data and qualitative case studies. In at least a handful of European countries, major retrenchment in social-insurance rights now appears. There is no general path dependency; instead the different types of welfare-state institutions in combination with factors such as constitutional veto points appear to play significant roles in terms of path dependency and resistance to cuts.

CLASS AND GENDER

As noted above a central hypothesis in the new-politics perspective is that, although partisan politics and class-related parties were of major importance during welfare-state expansion, in the retrenchment phase they are of little significance. Although

⁶Because of significant correlations between potential causal and contextual variables, such as the number of constitutional veto points, the type of dominant political parties, and the structure of social insurance institutions, separating the different contributions of these factors to retrenchment is difficult.

⁷The relative stability in Switzerland is likely to partly reflect the large number of constitutional veto points in its policy-making system.

debated, this hypothesis has been accepted by many. Such a view appears to be supported, for example, by observations that in Germany the Christian Democratic-Liberal coalition government was very cautious in attempting to trim its state-corporatist welfare state. This view has received additional support in empirical studies. On the basis of expenditure data, Huber & Stephens (2001) found that over time the role of partisan politics decreased considerably. Similar findings are also reported by Castles (2001). Ross (2000) argues that according to the "Nixon-goes-to-China" logic, left parties traditionally associated with the welfare-state expansion are likely to have more "degrees of freedom" to make cuts than have right parties.

On the issue of the role of political parties, we find dissenting voices. Hicks (1999, p. 220–21) argues that the left-right dimensions remained significant during the retrenchment phase. In a case study of the Netherlands Green-Pedersen (2001, 2002) analysed the role of the confessional political tendency, which played a major role in all Dutch governments during the twentieth century until 1995. He argued that, because of the pivotal role of the Christian Democratic party, in the early 1980s this party was able to make the reluctant but relatively weak social democratic party accept cutbacks in welfare benefits. Levy (1999) suggested that, when faced with the necessity to cut, social democratic governments in continental European countries attempted to turn "vice into virtue" by predominantly cutting, for example, overly lenient pension programs while improving benefits for the most needy. Kitschelt (2001) as well as Ross (2000) outlined factors in political party systems that are likely to favor possibilities for retrenchment.

In contrast analyses on the role of partisan politics based on SCIP data indicate clearly significant effects of partisan politics on retrenchment in social rights (Korpi & Palme 2001, 2003). Events of retrenchment were delineated in terms of cuts of at least 10% in net benefit levels in sickness, unemployment, and work-accident insurance during the 1975–1995 period. Taking into account the relative number of cabinet portfolios by different parties and the duration of these cabinets, the relative risk for major cuts was approximately four times higher for the secular center-right parties than for left parties. Although analyses of welfare-state expansion based on expenditure data has often viewed confessional parties as almost equivalent to social democratic ones, when it comes to retrenchment in social rights they were found to occupy a position between the other two party constellations. This pattern of partisan political effects was also supported by event history analysis and remained when a number of institutional and economic control variables were considered.

Attitudinal studies in several Western European countries indicate that the welfare state has retained widespread public support, a support which continues to be structured by socioeconomic class and the left-right continuum in expected patterns (Taylor-Gooby 1999; Svallfors 1999, 2003; Goul Andersen 1999). Yet changes have also been noted. In Sweden after the conversion by conservative-centrist parties and the employers' confederation to a very critical view of the welfare state, in the early 1990s top-level employees in the private sector became more negative, whereas lower-middle-class employees and workers in private as

well as in public sectors largely retained their positive views (Svallfors 1996). When the conservative-centrist government (1991–1994) introduced major cuts in social-insurance programs, it was unseated by a surge of social democratic support in the 1994 election. In its efforts to decrease large budget deficits, the new Social Democratic government continued to cut replacement rates, cuts contributing to a precipitous fall in the opinion polls. When it comes to welfare-state retrenchment, the Nixon-goes-to-China logic may have a relatively limited sphere of application.

Despite the voluminous writing on welfare-state retrenchment in recent years, one cannot fail to notice the dog that did not bark: Little attention has been paid to consequences of regress for gender inequality. This may indicate that retrenchment has not had very serious effects on the position and relative life chances of women. O'Connor et al. (1999, p. 113) note that in the welfare states of Australia, Britain, Canada, and the United States women have been disadvantaged by changes such as strengthened work incentives and increased targeting of programs, yet “while retrenchment has occurred, restructuring is perhaps a better overall description of the social policy changes during the last two decades.” Sainsbury (1996, ch. 9) argued that in countries such as Britain and the Netherlands an increasing reliance on means-tested benefits in combination with restricted access to such benefits has increased gender inequality because women rely on such benefits much more than men and because means-tested benefits for wives tend to deter their labor-force participation. Montanari (2000, ch. 3) observes that in Western countries the long-term trend toward an increasing reliance on universal cash benefits in child support was broken in the 1980s when tax concessions increased in importance. Such a development tends to disadvantage single mothers.

In this context, it must also be pointed out that in the Nordic countries with their large public sectors “manned” largely by women major cuts in the number of employees without a similar decrease in the clients of the public sector have to a significant extent increased the burdens of those remaining there. In Continental Europe with relatively low female labor-force participation rates, high unemployment is likely to have slowed the rate of increase in female participation while increasing the role of often-insecure part-time jobs.

GLOBALIZATION AND EUROPEANIZATION

In the 1990s globalization became a term on everybody’s lips and was used to suggest a variety of international challenges facing nation states and their welfare-state arrangements in particular.⁸ Initially threats from globalization against welfare states were often seen as severe, but gradually views have been shifting. For example, although Mishra (1999) saw globalization as a very serious threat to the foundations of welfare states, such views have been questioned by others

⁸As is well known, the term globalization has many meanings. I use it here to refer to the liberalization of cross-border capital movements and of international trade.

(e.g., Boyer & Drache 1996, Garrett 1998). Many scholars have come to see the effects of globalization as conditional on national institutions and political interventions (Esping-Andersen 1996, Palier & Sykes 2001, Swank 2001). In the processes of globalization international organizations have played significant roles (Deacon et al. 1997). As noted above, Pierson largely dismisses globalization as a source for fundamental welfare-state change. In discussions of the effects of efforts toward economic and political integration within the E.U. we also find considerable debates (Leibfried & Pierson 1995; Rhodes 1996, 2002).

In analyzing the role of international political and economic changes for national policy making, distinguishing between different policy sectors in welfare states is fruitful. One important distinction is found between policies to maintain full employment and social insurance and social services. National policies to maintain full employment are likely to be much more sensitive to, and dependent on, international developments than social-insurance and -service programs are. Of relevance here is that, with the exception of the largest economies, most Western countries are markedly export dependent. As Fligstein & Merand (2002) noted, trade growth has been especially pronounced within the E.U. When countries in economic crises decrease their imports, export possibilities in other countries decline and their unemployment problems mount, thereby likely creating a situation that pressures governments to make cuts in social-insurance and -service programs. In Europe full employment after the end of World War II was conditioned by Bretton-Woods institutions, giving national governments influence over cross-border capital flows while liberalizing cross-border trade. With the dismantling of cross-border capital controls and increasing economic integration within Europe, if unemployment is allowed to rise in some countries, maintaining full employment becomes very difficult, especially for smaller countries.

A large-scale experiment on the role of economic interdependence and political factors contributing to the rise of unemployment took place in Europe after the two oil shocks in 1973 and 1979. As discussed above, while levels of unemployment increased dramatically in the EEC countries, the EFTA countries (Austria, Finland, Norway, Sweden, and Switzerland), where social democrats had long participated in governments, attempted via various means to avoid the return of mass unemployment. For almost two decades, the EFTA countries were relatively successful in these attempts, but in the early 1990s, especially in Finland and Sweden, unemployment levels converged to the high European average (Korpi 2002).

Many economists have argued that globalization has interacted with technological developments to increase levels of unemployment in the economically advanced countries. The assumption here is that technological developments in these economies have escalated educational job requirements to levels where the less educated no longer are qualified. At the same time less-qualified production is moved to low-wage countries. In advanced economies job demands are thus assumed to have outrun the educational qualifications of significant sectors of the labor force. Such interpretations are often supported by the observation that

levels of unemployment tend to be especially high among workers with low educational qualifications, a correlation interpreted in causal terms. However, a similar correlation existed already during the period of relatively low unemployment. Furthermore, in all Western countries levels of education have been rapidly increasing. Several researchers have found that many employees are educationally overqualified for their present jobs (Åberg 2003, Borghans & de Gripe 2000, Freeman 1976). The observed correlation between education and the risk of unemployment may to a significant extent reflect statistical discrimination by employers, who use educational levels as a shorthand when sorting through the increasing numbers of job applicants. An alternative explanation for the increasing levels of unemployment is that overall demand for labor has been depressed and remains low.

In the 1990s economic and political integration in Europe accelerated, with the creation of the E.U. and the European Monetary Union as important landmarks. In the European Monetary Union we find institutional changes that tend to depress overall demand and thereby counteract decreases in unemployment. In contrast to the Federal Reserve Bank of the United States, which is instructed to consider the effects of its policies on employment and growth as well as on inflation, the new European Central Bank has a very low inflation target as its only goal. Whereas in recent years the Federal Reserve Bank has tended to frequently decrease its prime rates in response to increasing unemployment, European central banks have been steadfast in maintaining high interest levels during long periods, without regard to unemployment levels (Ball 1999, Carlin & Soskice 1997). The European Monetary Union and its associated stability pact place strict requirements on economic policies of member countries in terms of low levels of inflation and government debt. It can be argued that in several countries government attempts to achieve and to maintain these criteria have contributed to very high levels of unemployment (Guillén & Álvarz 2001, Kosonen 2001).

Yet most of the effects of economic and political integration within the E.U. on social insurance and social services appear to have been indirect, with high unemployment serving as the main catalyst, whereas direct effects on social policy making have been limited. Most of the interventions of the European Commission in the social-policy arena have been issued not as binding directives but only as recommendations that member countries are free to follow or disregard (Deacon 2000; Hantrais 2000; Montanari 1995, 2001). Based on the SCIP data set, Montanari (1995, 2001) found little evidence for convergence of legislation on social rights within member countries in five main branches of social insurance in the period 1970–1990. The European Court of Justice has, however, had direct effects on social policy at the European level by barring some aspects of negative treatment of women in the labor market (Hobson 2000). In this area, however, future development remains open and to a large extent depends on outcomes of ongoing internal conflicts focused on the issue of if this assembly of countries is to move toward a federal structure implying some form of a European government or if it is to remain a union for cooperation between relatively independent nation states.

DISCUSSION

The dramatic changes taking place in the economies of the Western countries during the past three decades have generated a number of important and informative books and articles on the consequences of these changes for welfare states. A review of the rapidly expanding research on welfare-state retrenchment points to the importance of clarifying the nature of the dependent variable, the welfare state. A definition focusing on social expenditures for transfers and services easily invites scholars to consider explanations in terms of general forces related to structural economic change. In the early decades after the end of World War II, scholars widely interpreted welfare-state expansion as a result of the development of industrialism generating universally shared needs for a well-trained and internally differentiated labor force (Kerr et al. 1964). Three decades later, analysts have explained welfare-state retrenchment in terms of postindustrialism, which via demographic and economic changes generates permanent austerity and thereby drives retrenchment. Although it is obvious that both industrialism and postindustrialism significantly change the contexts and conditions for policymaking, the question is to what extent these changes basically alter the nature of distributive conflict in Western societies. In the power-resources approach, viewing welfare states largely as outcomes of distributive conflicts between major interest groups differently endowed in terms of assets to be used in markets and in collective action via politics, conflicts concerning the determination of demand for labor and levels of unemployment emerge as key issues. Government budgetary pressures, the central causal factor driving retrenchment in the new-politics perspective, is to a major extent correlated with the rise in unemployment levels.

The widely shared view that welfare-state regress in Western Europe has been relatively limited partly reflects the fact that many scholars on welfare-state retrenchment have overlooked the return of mass unemployment, a central feature of Western European retrenchment. Furthermore, the widespread reliance on expenditure data has tended to blur the contours of retrenchment. Although the many case studies of a single or a few countries have given very valuable clues to the processes of retrenchment, such information has been difficult to forge into a larger picture of the extent and causes of retrenchment. In this context data on changes in social rights in social-insurance programs provide a complement to earlier studies, offering limited sets of well-defined comparative measures for a large number of countries and a relatively long time period. Analyses based on such data question earlier interpretations of the extent and causes of retrenchment. Thus since 1975 in a handful of European countries citizenship rights in three main social-insurance programs have changed in ways that must be described as major retrenchment. Differences in outcomes between earlier analyses and those based on social citizenship rights are especially stark when it comes to Britain, a crucial test case in the discussion on the extent and causes of retrenchment. In the debates on the role of class-related political parties in welfare-state regress, analyses based on

social-rights data clearly support the hypothesis of a continued role of partisan politics in the retrenchment phase.

In discussions on the role of globalization and on European integration for welfare-state regress, conflicting hypotheses have been advanced. Here, however, considering different aspects of welfare states and their interactions is necessary. It can be argued that a major part of the effects of globalization and transnational integration on welfare-state retrenchment has been focused on full employment, one of the cornerstones of the postwar European welfare state, the undercutting of which in turn may have effects on social insurance and services. The liberalization of cross-border capital movements has to a significant extent turned the tables to the disadvantage of governments attempting to safeguard full employment. Within the E.U., developments limiting the economic policy choices of governments in member countries are also likely to have been significant. In the power-resources perspective, the return of mass unemployment and attempts to make cuts in social-citizenship rights appear as a reworking of the implicit social contract established in Western Europe after the end of World War II.

ACKNOWLEDGMENTS

For valuable help in working with this paper I want to thank Eero Carroll, Stefan Englund, Ingrid Esser, Tommy Ferrarini, Helena Höög, Tomas Korpi, Ingallil Montanari, Joakim Palme, Ola Sjöberg, and Stefan Svallfors.

The *Annual Review of Sociology* is online at <http://soc.annualreviews.org>

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